KIRTANE & PANDIT

March 2025

The Ecoknowmic™

A Quarterly Economic Review

01.
KEY INSIGHTS

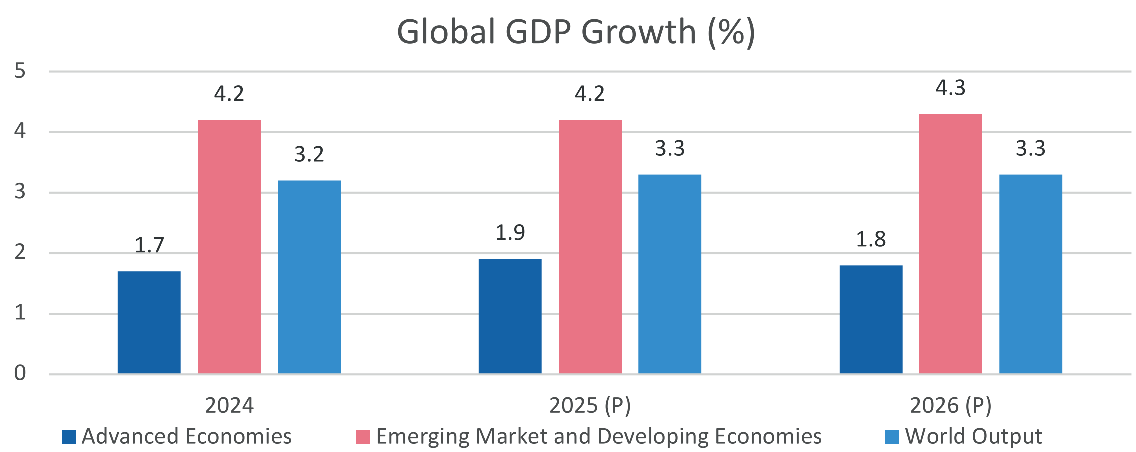
- The global economy is expected to grow at a stable rate of 3.3% in 2025 and 2026. Recent quarter saw a marginal rise in expectations for growth of 2025.
- GDP growth in Q3 of 2024-25 was 6.2% y/y, up from 5.6% y/y in the previous quarter. The growth has been broad-based, underpinned by improving domestic demand, a resurgence in exports and government expenditures.
- IIP has been slightly volatile showing signs of resilience in October and November but then did experience a dip in December.
- Albeit slight fluctuations observed recently, both manufacturing PMI and services PMI remain robust, underpinned by improved demand - both domestically and internationally.
- Inflationary pressures declined with CPI coming in at 4.31% y/y, a four-month low, led by cooling off of food inflation, especially vegetable prices.
- The RBI in its latest Monetary Policy Committee (MPC) in February 2025, cut the repo rate by 25 basis points, its first in almost 5 years as it looks to adopt a more accommodative stance to support domestic growth especially now that inflationary pressures have started cooling off.
- Gold imports continue to dominate higher imports as the trade deficit remained high towards the end of the calendar year.
- Cumulative net FDI and NPI showed some signs of recovery in the last month of the calendar year, although subdued global investor demand marred by geo political developments and increased trade protectionist policies hampered the overall investment inflows in the last quarter.
- In its effort to boost the economy by supporting domestic demand and consumption, the government has increased its capex in recent months.
- The broad-based recovery of the Indian economy in the latest quarter could lead to the indication that the worst is behind us. However, headwinds from the recent standoff on the tariffs with the US can hurt economic activity.

02.
GLOBAL SCENARIO

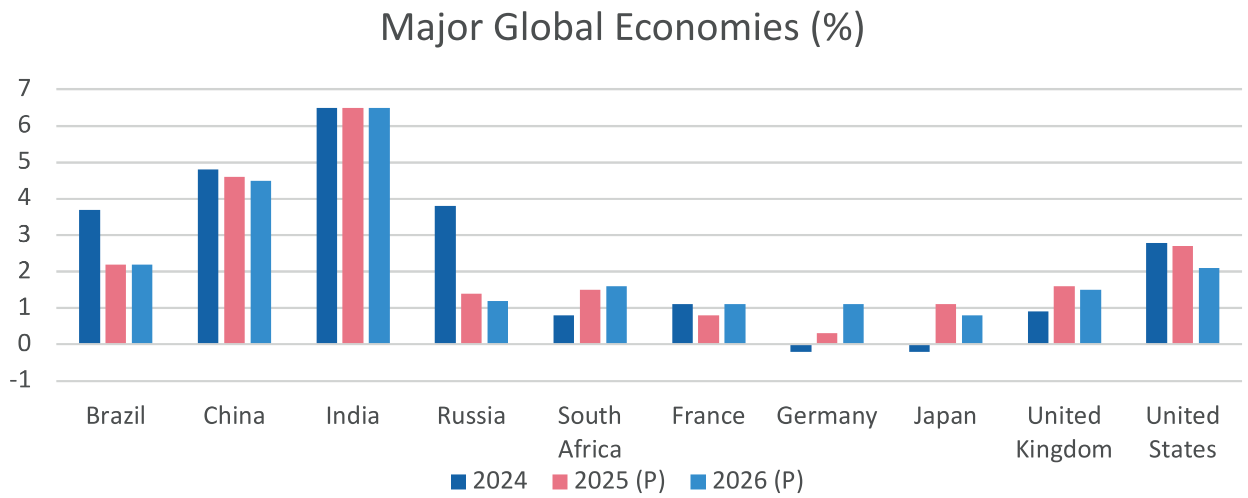
The global economy has been holding steady in recent months with growth expected at 3.3% in 2025 and 2026, albeit below the historical average of 3.7% (2000-19). This has been accompanied by the continuing trend of declining global inflation. Inflationary pressures, however, are expected to be a little more persistent in emerging market and developing economies as compared to advanced economies. A combination of cooling labour markets keeping demand pressures at bay and a decline in energy prices controlling headline inflation is expected to lead the downward trajectory of global inflationary pressure. Global headline inflation is projected to decline to 4.2% y/y in 2025 and 3.5% y/y in 2026.

Overall, non-fuel commodity prices are expected to increase by 2.5% y/y in 2025, led by an increase in food and beverage prices. The rise in food prices is especially hard on the poorer sections of society as their consumption pattern is highly sensitive to food prices and could hence lead to lower consumption appetite. In contrast, energy prices are expected to decline by 2.6% y/y in 2025, with weak demand from China playing a major role. Another factor has been the increased supply from countries outside of OPEC+. These factors have offset the slight price shock in recent months due to supply disruptions in the Middle East and gas outages.

The global economy seems to have entered a phase of subdued stability, but the growth patterns within the different regions have experienced diverging patterns. Among the developed economies, the United States is expected to standout buoyed by supportive financial conditions, a more accommodative monetary stance and strong wealth effects. The US economy is expected to grow at 2.7% y/y in 2025, which is a 0.5% upward revision, with growth tapering down to 2.1% y/y in 2026. The Euro area is expected to experience growth within the economy but at a gradual pace. Political and policy uncertainty coupled with subdued performance in the manufacturing sector towards the end of 2024, have put downward pressure on growth in the Euro area. Growth in Euro Area is expected at 1.0% y/y in 2025, a downward revision of 0.2% and is then expected to recover to 1.4% y/y underpinned by stronger domestic demand. Growth forecast for Japan remains unchanged from previous projections at 1.1% y/y in 2025 and 0.8% y/y in 2026.



Among the emerging market and developing economies, growth in China is revised upward by 0.1% & 0.4% to 4.6% & 4.5% in 2025 & 2026 respectively. The robust fiscal package announced by the government in November of last year is expected to partly offset the negative effects from trade policy uncertainty and the stuttering property market. Growth projects for India remained unchanged at 6.5% y/y in 2025 and 2026. With moderate but stable growth forecast, India is expected to remain one of the key growth drivers for the global economy. The lower-than-expected growth in Q2 of 2025-25 along with factors such as subdued private investment and lower demand in the housing segment are some of the headwinds facing the Indian economy.



Growth rate for Russia is revised upwards by 0.1% at 1.4% in 2025 and is expected to decline to 1.2% y/y in 2026 as the country tries to address the economic repercussions of the prolonged ongoing war. Growth rate for Saudi Arabia is revised downwards by 1.3% to 3.3% in 2025 and by -0.3% to 4.1% y/y in 2026. The downward revision comes as OPEC+ countries continue its crude oil supply cuts.

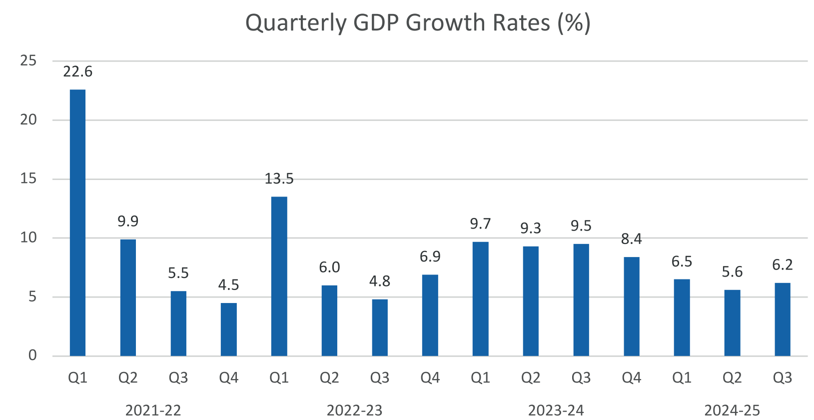
	Y/Y Growth Projections in Jan 2025 (%)		Difference from Oct 2024 Projections (%)	
	2025	2026	2025	2026
World Output	3.3	3.3	0.1	0.0
United States	2.7	2.1	0.5	0.1
Canada	2.0	2.0	-0.4	0.0
Germany	0.3	1.1	-0.5	0.3
France	0.8	1.1	-0.3	-0.2
China	4.6	4.5	0.1	0.4
India	6.5	6.5	0.0	0.0
Japan	1.1	0.8	0.0	0.0
Russia	1.4	1.2	0.1	0.0
Saudi Arabia	3.3	4.1	-1.3	-0.3

The global economy is expected to tread a steady path of economic activity; however, it appears that it's settling in at a low growth rate in the medium run. The lingering after-effects of the Covid, pandemic, ongoing geopolitical tensions as well as inclination towards trade protectionist policies are some of the key factors that have damaged the global economy in recent years. The current growth rate for the global economy may feel insufficient to overcome the damages of these events. Further, the subdued growth would affect the low-income economies the hardest, which are even more vulnerable to climate change, with the gap between them and middle-income economies appearing to be widening further. Concerted global policy measures are the need of the hour for the proliferation of global trade, addressing debt vulnerabilities and help combat the effects of climate change.

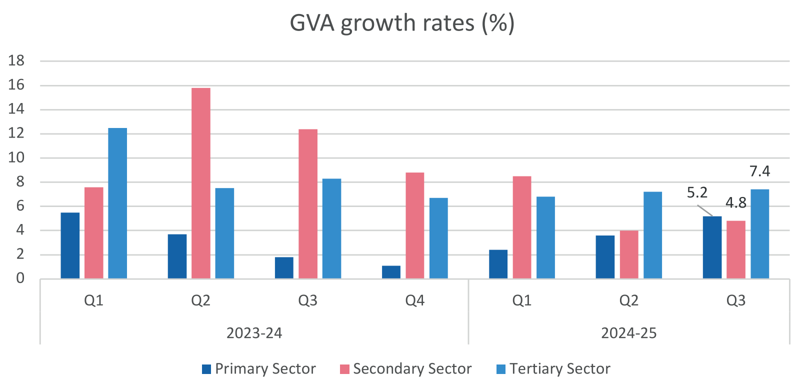
Data Sources
World Economic Forum, International Monetary Fund | Global Economic Prospects, World Bank

03.
INDIA GDP

The recent downward trend in growth of the Indian economy, which peaked in Q2 of 2024-25, with GDP coming in at a seven-quarter low of 5.6% y/y, was reversed in Q3 of 2024-25. The GDP growth improved to 6.2% y/y in Q3 of 2024-25. This resurgence in growth was mainly driven by domestic demand, continuing strong rural demand, further improvements in urban demand, as well as in exports along with increased government spending.



The current revival in growth rates is especially encouraging as it was across all three sectors. The agriculture sector continued its credible performance from Q2 further growing at 5.6% y/y in Q3 of 2024-25 as compared to 4.1% y/y in the previous quarter. This is on the back of a good Kharif crop and steady progress in Rabi sowing. The withdrawal of the monsoon season seems to have helped mining activity, with mining and quarrying printing in growth of 1.4% y/y in Q3 of 2024-25 as compared to a contraction of -0.3% y/y in Q2 of 2024-25. The highlight of the improvement in Q3 has been the recovery in the industrial sector, which witnessed a noticeable slump in Q2 of 2024-25. The manufacturing sector grew by 3.5% y/y in Q3 of 2024-25 as compared to 2.1% y/y in the previous quarter. The Utilities segment also showed improved performance growing at 5.1% y/y as compared to 3.0% y/y in the previous quarter. The data for infrastructure output, a higher frequency data which tracks activity across eight heavy industries, has been following a similar trajectory with a growth of 4.8% in December an upward revision from the previous estimates of 4%. Industries such as cement and petroleum products have underpinned the recent growth in infrastructure output. The services sector continues to be a beacon of consistent growth coming on at 7.4% y/y as compared to 7.2% y/y in the previous quarter. The slight uptick in the services sector was led by improved performance in the Trade, Hotels, Transport, Communication & Services related to Broadcasting segment.



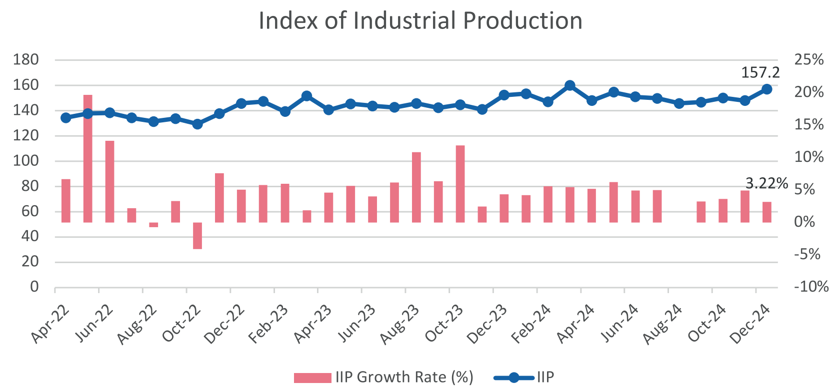
On the expenditure side, improved domestic demand and heightened government spending played a pivotal role in GDP growth. Improvement in domestic demand has been a welcome change for the economy as it plays a vital role in the overall growth story. Furthermore, the improvement has been broader based than before with urban demand recovering and domestic demand firming up. Positive quarterly results for the FMCG sector as well as rural real wage growth firming up bode well for the overall growth. The other critical factor has been the exchequer opening up its coffers with government consumption growing at 8.3% y/y in Q3 of 2024-25 as compared to 2.3% y/y in Q3 of 2023-24.

Government consumption has been rising through the year from a contraction of -0.5% y/y in Q1 to 3.8% y/y in Q2 to now at 8.3% y/y in Q3. Although growth backed by government expenditure is not necessarily sustainable, considering the fact that the government had been fairly cautious through the year, this improvement does provide a shot in the arm for economic growth. Private consumption has improved to 6.9% y/y as compared to 5.9% y/y in the previous quarter. A tale of caution has been the marginal decline in gross fixed capital formation, an indication of overall investment demand, to 5.7% y/y in Q3 of 2024-25 as compared to 9.3% y/y in Q3 of 2023-24.

Growth numbers for Q3 do indicate that the worst might be behind us, however, there are certain headwinds to consider. The sluggish growth in capital formation is something that needs to pick up for sustained growth. Further, the recent tariff impasse with the US could have a bearing on the external sector affecting the overall growth prospects of the economy.

The latest IIP data reflects slightly contrasting trends to the recent GDP numbers. After a rather shaky second quarter of FY 2024-25, IIP showed signs of resilience with consecutive months of credible performance with overall index growing by 3.66% y/y in October and 4,96% y/y in November, a six-month high, only to decline to 3.22% y/y in December. Overall, however, IIP improved in Q3 of 2024-25 averaging at 3.95% y/y (Oct-Dec) as compared to 2.74% (Jul-Sep). Manufacturing sector experienced a slowdown at 3.03% y/y in December as compared to 5.53% y/y in November. IIP, however, experienced strong performance in key sectors such as metals, electrical equipment and petroleum along with an overall revival in the manufacturing sector underpinned by festive demand, led to a turnaround in IIP performance in November and December. Electric heaters, small transformers, optical fibre connectors underpinned growth in electrical equipment, whereas petrol, aviation fuel and LPG contributed to the growth in petroleum products. Mining activity also picked up, averaging 1.78% y/y (Oct-Dec) as compared to a contraction in -0.12% (Jul-Sep) along with overall improvement in electricity productions as well averaging at 4.18% y/y (Oct-Dec) as compared to an average of 1.57%y/y (Jul-Sep).

Looking at the use-based categories, capital goods experienced a robust growth of 10.31% y/y in December, its highest since 11.66% y/y in July. This is especially encouraging as demand for capital goods is indicative of the overall investment appetite. Primary goods segment continued its strong performance averaging at 3.02% y/y (Oct-Dec) as compared to average of 1.68% y/y (Jul-Sep). After continued growth in the last four months, growth in infrastructure/construction goods declined to 6.32% y/y in December 2024 as compared to 8.10% y/y in November 2024. Consumer non-durables contracted heavily in December 2024 at (-)7.62% y/y with the overall average (Apr-Dec) contracting by (-)1.29% y/y.



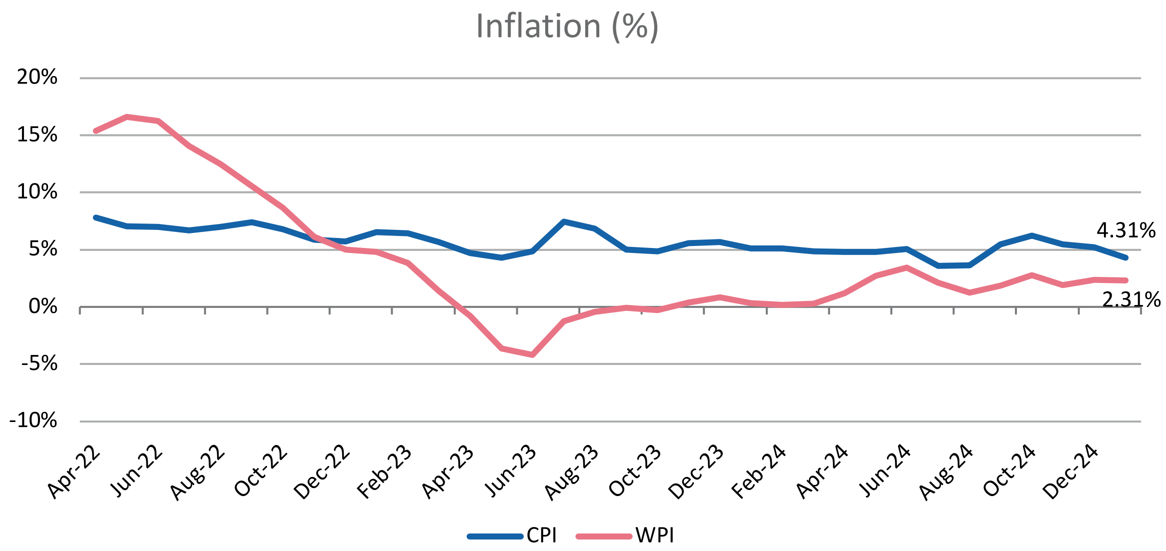
The PMI index in recent months has been a mixed bag with contracting trends in services and manufacturing PMI. In the month of January 2025, manufacturing PMI rose to a six-month high of 57.7, up from 56.4 in December. A rise in new orders indicating improved domestic and external demand underpinned this rise in manufacturing PMI. The month of February saw manufacturing PMI dip to 56.3, its slowest growth in a year. Rise in input costs for the month also had an impact. Overall, however, business expectations remain strong with higher orders expected in the coming months. Job creation in the manufacturing sector is also expected to remain robust in the coming months.

Services PMI fell from 59.3 in December to 56.6 in January 2025, as the services sector witnessed the slowest pace of growth in over two years. The business activity and new business indices within the services PMI came in at their lowest levels in the last two and one year respectively. Services PMI however rebounded to 59.0 in February 2025 underpinned by a surge in domestic and external demand. A spike in demand in the international market led to a surge in demand. Overall, the services PMI remains above the 50 mark, as strong exports coupled with improving domestic demand continue to support growth in the services sector.

Data Sources
Ministry of Statistics and Programme Implementation | Purchasing Managers Index | Ministry of Commerce & Industry

04.
INFLATION & MONETARY POLICY

After the Consumer Price Index (CPI) reached the highs of 6.21% y/y in October 2024, the inflationary pressures have been on a steady decline in recent months, coming in at 5.22% y/y in December 2024 and 4.31% y/y in January 2025. The recent cooling off of food prices has had an impact on the overall inflationary pressures. Food inflation peaked at 9.7% in October of 2024 but has been on a steady decline, coming in at 5.7% in January of 2025. Particularly, the Vegetable prices, which averaged a staggering 25.8% y/y (Apr-Oct) with a peak of 42.2% in October 2024, have been on a steady decline coming in at 11.3% in January 2025. Within the food basket, apart from vegetables, prices for items such as pulses and products, sugar and confectionery, personal care and cereals also witnessed a decline in December and January. A good kharif output with seasonal softness in food prices in winter months greatly contributed to the decline in vegetable inflation. Pulses have also witnessed a cooling off of inflationary pressures coming in at 2.6% y/y in January as compared to the average of 11.7% y/y (Apr-Dec). Fuel inflation has been contracting through the financial year, averaging at -3.0% y/y (Apr-Jan). Decline in global fuel prices, led by increased supply by countries outside the OPEC+ has been a key factor in the contraction of fuel inflation.



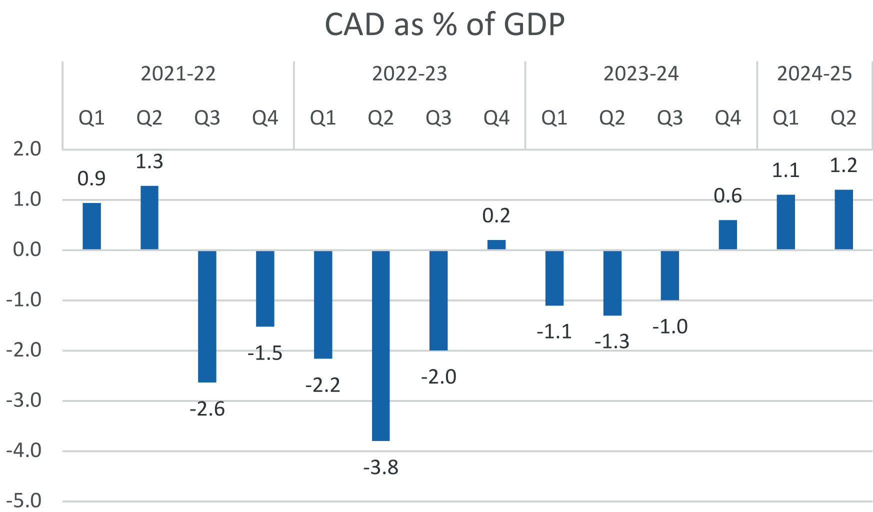
The Wholesale Price Index (WPI) firmed up to 2.37% y/y in December 2024 as compared to 1.89% y/y in November and then marginally declined to 2.31% y/y in January 2025. Higher input costs for primary articles, averaging at 5.35% y/y (Dec-Jan) along with food articles have led to the slight uptick in WPI in recent months. Food articles have averaged at 8.35% y/y (Apr-Jan). After contracting at an average of -2.09% y/y (Apr-Nov), prices for non-food articles firmed up by 2.46% y/y and 2.95% y/y in December and January respectively. Increase in prices of non-food articles such as oil seeds led to the current surge. The firming up of global commodity prices due to the increased uncertainty regarding protectionist policies around the globe might play a role in the overall input prices in the coming months.

The RBI, in its latest Monetary Policy Committee (MPC) in February 2025, cut the repo rate by 25 basis points, its first in almost 5 years. The repo rate was cut to 6.25% from 6.50%. Inflationary pressures have declined further post this decision. The RBI in its latest MPC statement has hinted towards a slight shift in focus from only containing inflationary pressure to supporting domestic growth as well. The continued cooling off of food inflation, especially decline in prices for vegetables and pulses, along with the overall easing of inflationary pressures might lead the RBI to consider another rate cut in the near future.

Data Sources
Reserve Bank of India | Office of the Economic Adviser, Ministry of Commerce & Industry

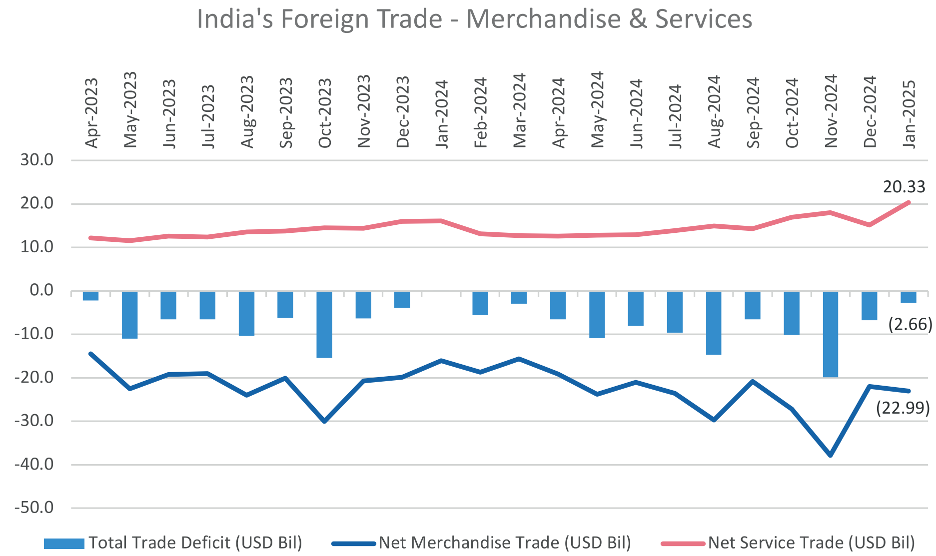
05. THE EXTERNAL SECTOR

Factors such as geo-political tensions, supply chain disruptions and the emergence of protectionist trade policies continue to weigh on the external sector. This is reflected in the Current Account Deficit (CAD) to GDP ratio coming in at 1.1% in Q1 of 2024-25, with a slight uptick to 1.2% in Q2 of 2024-25. The continued increase in the CAD to GDP ratio in the latest quarter was predominantly due to merchandise trade deficit, which increased to US$ 75.3bn in Q2 of FY 2024-25 as compared to US$ 64.5bn in Q2 of FY 2023-24. Improved net services receipts coupled with private transfer receipts kept the CAD to GDP ratio relatively stable.

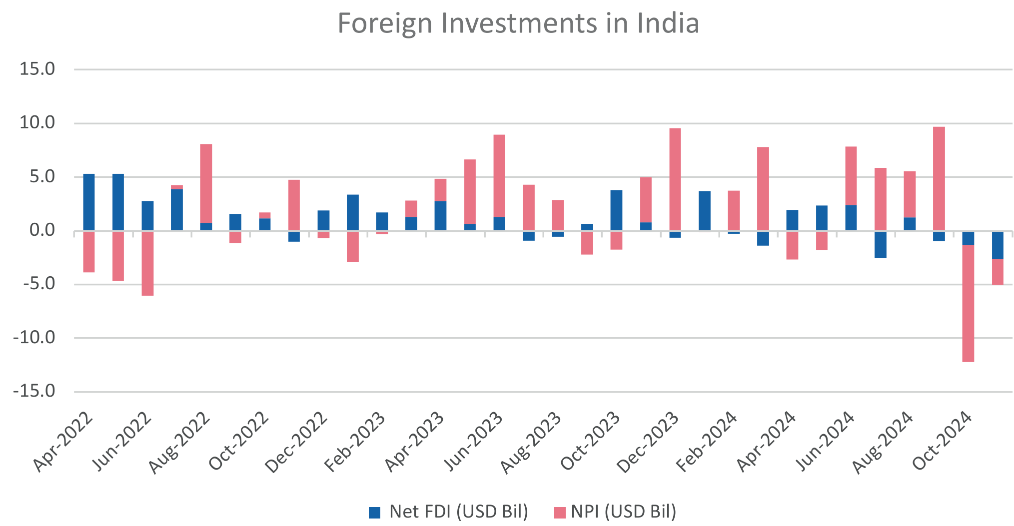


After the highs of November, the trade deficit has declined in December and January, coming at (-)US$ 21.94 bn and (-)US$ 22.99 bn respectively. Exports have however declined by 1% y/y and 2.4% y/y in December and January respectively, suggesting a reduction in imports in recent months. The cumulative trade deficit from April 2024-Jan 2025 reached US$ 87.47bn as compared to US$ 70.06bn during the same period in the previous year. In the month of January, exports dipped slightly to US$36.43 bn as compared to US$ 38bn in December 2024, with imports surging to US$ 59.42bn, as compared to US$60bn. in December 2024. Gold imports continue to contribute heavily to the overall merchandise imports. Gold imports grew by 55.4% y/y in December 2024 and 40.79% y/y in January 2025. Global uncertainties may have driven investors towards gold as a safer asset. Apart from gold, the largest contributors continue to be electronic goods, machinery, electrical & non-electrical, chemicals and metalliferous ores & other minerals. This is also an indication of the growing domestic demand. The dip in exports was mainly led by a decline in exports of petroleum products, tanking by 28.6% y/y in December 2024 and 58.7% y/y in January 2025, affected by subdued global demand. However, an increase in exports of products such as electronic goods at 79.0%, engineering goods at 7.4% and drugs & pharmaceuticals at 21.5% in the month of January is a welcome sign.

Looking at the cumulative numbers, merchandise exports grew by 1.4% y/y in 2024-25 (Apr-Jan) as compared to the same period in the previous year. The main drivers for the growth of merchandise exports were non-petroleum products, growing at 14.15% y/y in 2024-25 (Apr-Jan). This growth was mainly driven by the gems and jewellery segment, electronic goods, which grew by an impressive 78.97% y/y (Apr-Jan) and the pharmaceuticals segment, which grew by 21.46% y/y (Apr-Jan). Imports during the same period grew by 7.43% in 2024-25 (Apr-Jan) with Non-petroleum & Non-Gems & Jewellery imports growing by 6.62% y/y during the same period.

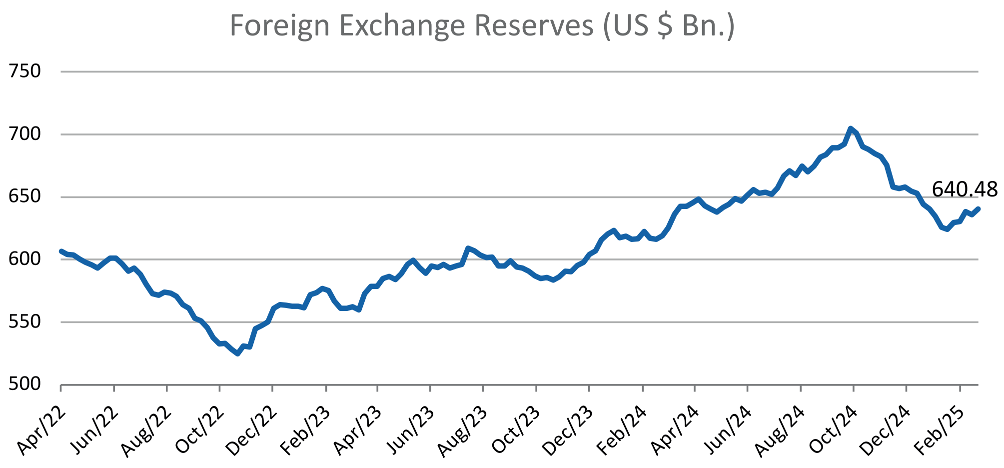


Services exports continue its strong performance growing at 29% y/y in December 2024 and 24% y/y in January 2025. The cumulative net services receipts through Apr-Jan 2024-25 came in at US$ 155.5bn and compared to 136.23bn during the same period in the previous year, with a growth of 14.15% y/y. Exports in services continue to be dominated by IT and BPO services.



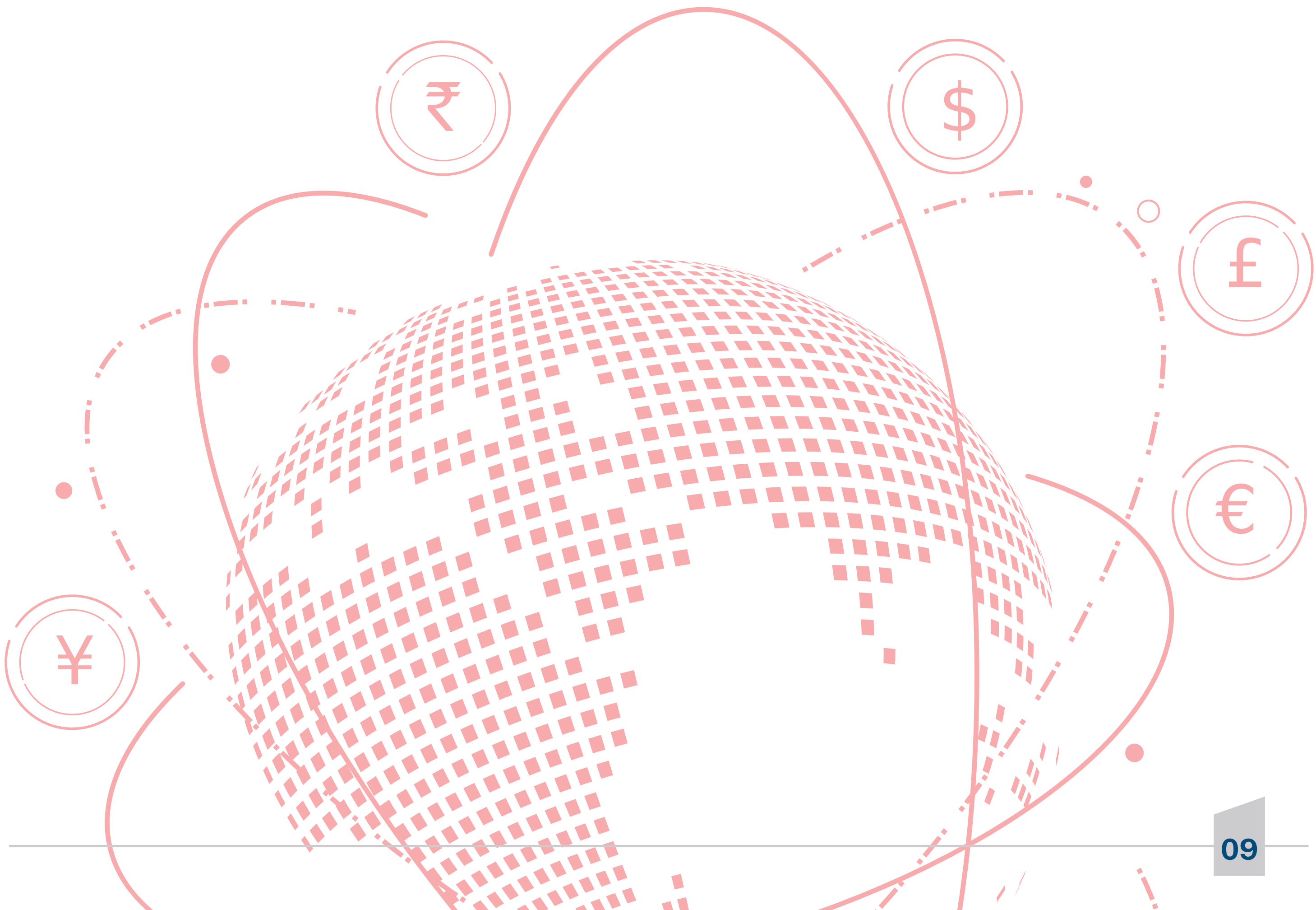
Net FDI inflows recovered slightly towards the end of the calendar year coming in at US$ 0.71bn. after four consecutive months of contraction. Geopolitical and global economic uncertainties continue to dissuade the global investor as demand has remained subdued. Net FDI contracted by (-)US$ 2.63bn in the month of November 2024. On a cumulative basis, net FDI inflows came in at US$1.19bn in 2024-25 (Apr-Dec) as compared to US$7.84bn during the same period in the previous year. One of the reasons for the decline in net inflows would be the rise in repatriation, wherein global investors take money out of the geography where they have invested after earning profits. Repatriation in 2024-25 (Apr-Dec) accounted for US$ 43.9bn as compared to US$ 33.0bn during the same period last year, which is a jump of almost 33%. The services sector continues to be the cornerstone of FDI inflows along with computer software and hardware, trading, telecommunication, automobile, and chemicals. Net portfolio investments have shown similar trends, recovering in the last month of the calendar year with net inflows of US$1.71bn after a contraction of (-)US$2.37bn in November 2024. On a cumulative basis, net portfolio investment came in at US$ 9.25bn in 2024-25 (Apr-Dec) as compared to US$ 32.6bn in 2023-24 (Apr-Dec).

Visible political manoeuvring towards trade protectionism globally, coupled with heightened chances of tariff war with the US and the slew of policy measures by China have all made global investors a little cautious towards the Indian market. Further, factors such as elevated valuations leading to cheaper alternatives in other emerging economies like the ASEAN countries have had an impact on global investors' appetite for the Indian market.



Forex reserves increased to a two-month high at US$640.9bn as of 21st Feb. The recent surge has mainly been driven by foreign currency assets, which came in at US$543.84 bn. The rupee has been under pressure with sluggish economic growth and the potential of a trade war with US due to its new tariff policy. However, timely interventions by the RBI have controlled the slump rupee, positively impacting the overall foreign currency assets. Gold reserves also increased to US$74.57bn as of 21st Feb. as India continues to maintain healthy forex reserves with the current level enough to cover roughly 10 months of imports.

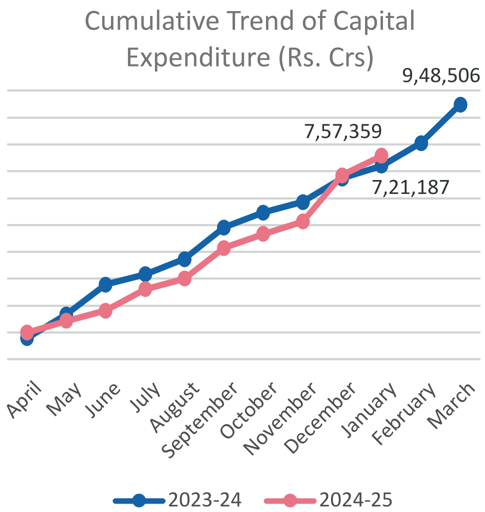
Data Sources
Ministry of Finance | Ministry of Commerce & Industry | Reserve Bank of India

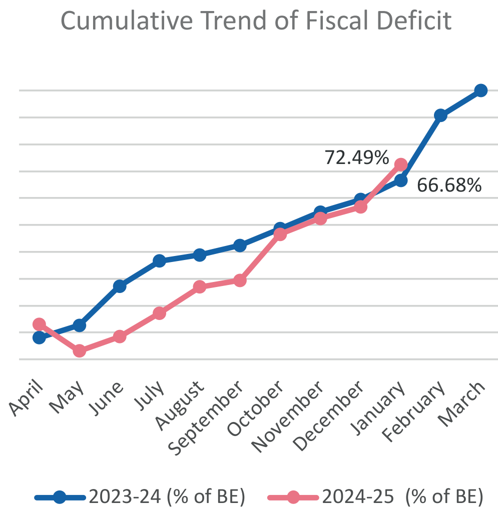


06.
FISCAL SCENARIO

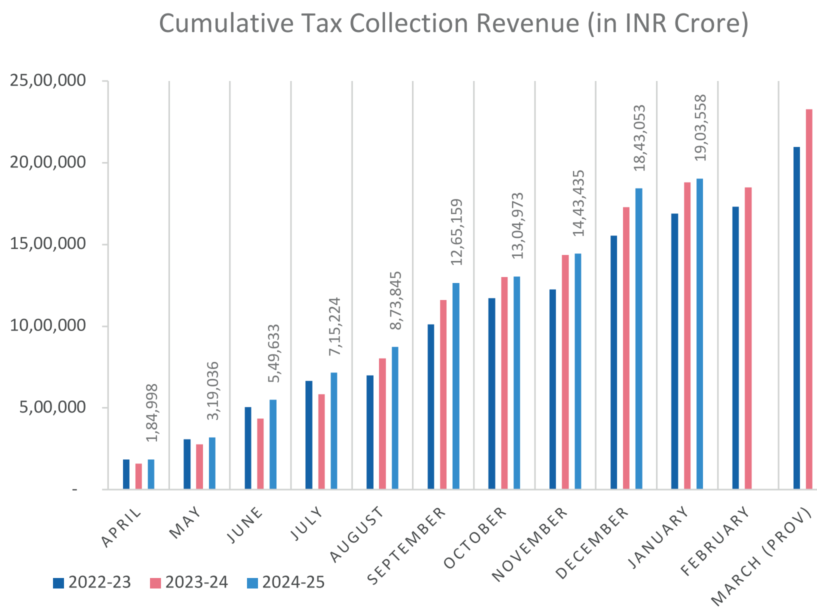
The government in its Union budget set the fiscal deficit target to GDP target at 4.4%, its lowest in the last five years. This comes at a time when there is a possibility of increased spending along with expected tax cuts to boost consumption. The government has backed this fiscal target on its expectations of high tax collections.

In its efforts to support the domestic economy, the government has adopted fiscal flexibility in recent months. The cumulative fiscal deficit as percentage of the yearly target for 2024-25 jumped from 56.66% in December to 72.49% in January with a total outlay of INR 1.2 lakh crore. The said percentage was at 66.68% at this stage of the year in 2023-24. Capital expenditure, which is predominantly allotted for infrastructure development, amounted to INR 7.57 lakh crores, which is higher than INR 7.21 lakh crore during the same period in the previous year. Even with the recent surge, there is enough room in the next two months for increased capex if the government is to reach its annual target.





The recent increase in capex can support higher domestic consumption and create employment, giving a much-needed boost to the domestic economy. The government has transferred INR 10.74 lakh crores as devolution of share of taxes, which was higher than INR 2.53 lakh crore during the same time in the previous year.



On the revenue front, revenue receipts were at INR 23.17 lakh crore, of which tax revenue contributed the larger chunk at INR 19.04 lakh crore with non-tax revenues coming in at 4.68 lakh crores. Tax revenue for 2024-25 (Apr-Jan) was at 74.4% of budget estimates (BE) lower than 80.9% in 2023-24 (Apr-Jan). This could be attributed to the larger share of tax devolution (the process of sharing taxes between central & state government) this year as compared to last. Non-tax revenues for 2024-25 (Apr-Jan) came in at 88.1% of BE as compared to 90% of BE during the same period in the previous year. Non-tax revenues have been helped by the RBI dividend payment which comes from the INR 2.11 lakh crore that it transferred to the central government.

Data Sources
Union Budget 2024-25 | Ministry of Finance

KIRTANE & PANDIT

Pune

5th Floor, Wing A, Gopal House, S.No. 127/1B/11,
Plot A1, Kothrud,
Pune – 411 038, India
Contact no : +91 20 67295100 / 25433104
E -mail : kpca@kirtanepandit.com

Mumbai

601, 6th Floor, Earth Vintage, Senapati Bapat Marg, Dadar West,
Mumbai- 400 028, India
Contact no : 022 69328846 / 47
E -mail : kpcamumbai@kirtanepandit.com

New Delhi

272, Rajdhani Enclave, Pitampura,
Delhi-110034, India
Contact no : +91-96438 74488
E -mail : kpcadelhi@kirtanepandit.com

Bengaluru

No. 63/1, I Floor, Makam Plaza, III Main Road,
18th Cross, Malleshwaram, Bengaluru – 560 055, India
Contact no : 080 23443548 / 23461455
E -mail : kpcabengaluru@kirtanepandit.com

Nashik

First and Ground Floor, Plot No. 115, Kalpataru Bunglow, SN- 315/1D, Pathardi Phata,
Prashant Nagar, Nashik - 422010
Contact no : +91 253 2386644
E - mail : kpcanashik@kirtanepandit.com

Hyderabad

401 to 405, 4th Floor, Sanatana Eternal,
3-6-108/1, Liberty Road, Himayatnagar,
Hyderabad - 500 029, India
Contact no : +91 99127 41089 / 94400 55917 / 98480 44743 / 98480 46106
E -mail : kpcahyderabad@kirtanepandit.com

Chennai

No. 128, Old No. 34, Unit No. 1, 6th Floor,
Crown Court, Cathedral Road Gopalapuram
Chennai 600086
Contact no : 044 47990259
E -mail : kpcachennai@kirtanepandit.com

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kpca@kirtanepandit.com
www.kirtanepandit.com

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